



# POLICE AND FIRE RETIREMENT SYSTEM OF SPRINGFIELD, MO

830 Boonville  
Springfield, Missouri 65802  
Phone: (417) 839-8214

## Minutes October 13, 2016

### 1. Call to Order

Cowherd called the meeting to order at 8:30 a.m. Minutes taken by White.

### Attendance

Members	Representation	Present	Absent
Charlie Cowherd	President	X	
Paul Carroll	Citizen	X	
Adam Carter	Fire	X	
Derek Fraley	Citizen	X	
Ron Hoffman	Retiree	X	
Gus Krafve	Citizen	X	
Chris McPhail	Police	X	
Nancy Martin-Hinds	Citizen	X	
Justin Milam	Citizen	X	
Ed Cantrell (NV)	Retiree	X	
Jamie Frieze (NV)	Fire		X
Chris Welsh (NV)	Police	X	
David Holtmann (NV)	Finance	X	
Ken McClure (NV)	City Council	X	
Janell Manley (NV)	Administrative Director	X	
Nikki White (NV)	Secretary	X	

NV = Non-voting

Rhonda Lewsader, Alissa Zhu, Dennis Lilly, Chad Davis, Tony Kelley, Mike Evans, David Fenton and Becky Fenton were also present.

### 2. Approval Meeting Minutes – September 8, 2016 (open session)

Carter made a motion to approve the September 8, 2016 minutes as presented; 2<sup>nd</sup> by Martin-Hinds. Vote all: Yes.

### 3. Approval of Financial Statement Ending August 31, 2016

- The cash balance at the end of August was \$5,844,621.

*Nikki White*

- The State Street S&P 500 Flagship NL Fund increased by \$75,026. The return was 0.15% compared to the index return of 0.14%.
- The State Street Russell 2000 NL Fund increased by \$337,545. The return was 1.79% compared to the index return of 1.77%.
- Pictet increased by \$684,630. The return was 1.63% compared to the index return of 0.07%.
- Wells Fargo had an increase of \$628,815. The return was 2.38% compared to the benchmark of 2.49%.
- Galliard increased \$33,228. The return was 0.12% compared to the index return of -0.13%.
- Income Research increased \$34,522. The return was 3.32% compared to the index return of 3.24%.
- Brandes increased \$67,515. The return was 0.87% compared to the index return of -0.59%.
- Brookfield decreased (\$75,707). The return was -0.71% compared to the index return of -2.61%.
- The US Tips NL Fund decreased by (\$72,837). The return was even with the index of -0.45%.
- Brandywine had a decrease of (\$136,505). The fund returned -0.35% compared to the index return of -1.04%.
- Pyramis had an increase of \$348,206. The return was 2.03% compared to the index at 1.80%.
- The State Street Commodities NL Fund decreased by (\$204,726). The return was even with the index at -1.76%.
- Blackstone had an increase of \$139,019. The fund returned 0.90% compared to the index return of 0.60%.
- Entrust had an increase of \$158,201. The return was 1.18% compared to the index return of 0.60%.
- Employee contributions for the month totaled \$245,418 and employer contributions totaled \$516,412.
- Gain/Loss in market value, including managers' fees was \$2,042,900 for the month. Total additions were \$2,805,330.
- Benefit payments totaled \$1,954,644. Return of contributions totaled \$511,319. Administrative expenses totaled \$29,430. Net increase to the Plan was \$309,935.
- Total Net Assets at the end of August were \$350,984,859.

Carroll made a motion to approve the financial statement ending August 31, 2016; 2<sup>nd</sup> by Krafve. Vote all: Yes.

Nikki White

#### 4. Review of Applications

Name	Type	Application Date	Department
Richard Moses	Surviving Spouse	09/12/2016	Police
Randall Ragar	Age & Service	09/22/2016	Police

Carter made a motion to approve the application as presented; 2<sup>nd</sup> by Carroll. Vote all: Yes.

#### 5. Review of Calculations

Name	Type	Years of Service	Monthly Pension Amount	Partial Pension Amount
Leslie McMasters	Final Check	24.2	\$3,193.71	\$958.11
Jackie Crawford	Final Check	30.21	\$4,034.28	\$672.38
Richard Moses	Surviving Spouse	20.60	\$1,929.99	\$560.32
Michael Ogle	Age & Service	22.88	\$3,583.78	\$1,040.45
Jack Ellis	Age & Service	25.00	\$3,426.71	\$1,941.80

Carter made a motion to accept the calculations as presented above; 2<sup>nd</sup> by Carroll. Vote all: Yes.

McClure entered the meeting at 8:40 a.m.

#### 6. Approval of Return of Contributions

Name	Type	Years of Service	ROC
Michael Ogle	Age & Service	22.90	\$124,488.27
Jack Ellis	Age & Service	21.00 and 4.0 military buy back	\$11,069.87

McPhail made a motion to approve the return of contribution as presented above; 2<sup>nd</sup> by Carter. Vote all: Yes, with the exception of Cowherd who voted no for Ogle.

#### 7. Pension Benefit Information – Invoice

PBI is the company that provides the Board with death audit services. Carroll made a motion to approve the annual invoice in the amount of \$1,400; 2<sup>nd</sup> by Krafve. Vote all: Yes.

#### 8. Administrative Director's Report

Manley reported that she's making progress on the income verification process. About 42% have responded. The deadline is October 31<sup>st</sup>.

There is currently no change in the SPOA lawsuit.

Manley, McPhail and Welsh will be attending the SRC Summit next week. SRC will be attending next month to discuss the asset liability study as well as the quarterly investment report.

Manley informed the Board that a retired disability member recently passed away. It is a unique situation in that he has a remaining dependant daughter that is under the age of 18. The mother passed away earlier

this year so there is not a surviving spouse. The current rules don't address this issue so Manley asked the legal department to review. We are waiting for the daughter to have a guardian appointed. They know who the guardian will be, but they are currently raising money to get this done. Once the guardian is appointed, they will apply for the benefit. We will then pay her what the plan calls for which is up to 15% of his monthly pension amount. Instead of a surviving spouse we will have a guardian applying. Manley is working with Lewsader to work on a code revision to address this in the future.

9. Legal Matters – Closed Session, pursuant to Section 610.021, RSMo.

Carroll made a motion to move to closed session at 8:53 a.m. pursuant to Section 610.021(1) RSMo.; 2<sup>nd</sup> by Krafve. Vote Yes: Cowherd, Carroll, Carter, Fraley, Hoffman, Krafve, McPhail, Martin-Hinds, and Milam. No: none. Open session resumed at 8:56 a.m.

10. Legal Matters – Closed Session, pursuant to Section 610.021, RSMo.

Fraley made a motion to move to closed session pertaining to the lawsuit at 8:56 a.m. pursuant to Section 610.021(1) RSMo.; 2<sup>nd</sup> by Krafve. Vote Yes: Cowherd, Carroll, Carter, Fraley, Hoffman, Krafve, McPhail, Martin-Hinds, and Milam. No: none. Open session resumed at 9:00 a.m.

11. Income Verification Discussion

David Fenton, retired firefighter, addressed the Board. Fenton was a battalion chief with the department and went out on disability from a chemical spill that he responded to which caused lung damage. He said that most firefighter and probably police officers also have a second job outside of the department. He currently takes a substantially lower salary with his current job with Republic schools. The current income restrictions do cause a hardship. He feels comfortable coming to the Board with the current stability of the Fund. He thinks it would be a very low cost thing for the Plan. Fenton asked the Board to seriously consider taking a further look at the restrictions. Cowherd asked if he was speaking on behalf of those that are beyond retirement age. Fenton said not necessarily. He is speaking on broader terms. He said that he is about three years out from what would be his retirement age.

Cowherd said that the Board does appreciate what all of those on disability have been through. It is a sacrifice. The Board has a deal and that is to make sure all retirees get the benefits they are supposed to get. At the same time, the Board doesn't have the capacity to change the ordinances in which we operate. That has to come from City Council. The bargaining units would probably be involved as well. He would like the constituents to understand that there is not a lack of concern. The Board is simply tied to what is in the ordinances. Fenton said he understands that. He would be happy to visit with Council. He's just not sure where to go from here.

Krafve asked what other plans are doing. Fenton said he has heard that our plan is unique with that restriction, but he doesn't have specific information on that. Cantrell said that he recalls Wichmer saying that we are one of the only plans that has this restriction. The current employees that are on the LAGERS system do not have this restriction. It exists because there was some past abuse, but most feel that the disability review process has tightened up substantially. McClure said that if this discussion were to move forward, he thinks Council would want the Board to weigh in on it.

McPhail asked if Fenton was asking for a blanket removal of the income verification. Fenton said yes. He thinks the ones that it would help the most are those with young families that have children they are still raising. Manley said that since 2011, the overages have totaled around \$440,000. Cowherd said the Board



will have to find out if there's an actuary impact. Lewsader said that if the Plan is not at least 80% funded, you can't increase a benefit that will reduce that amount that the Plan is funded. The Plan is currently 76.5% funded. Carroll asked how Milliman factors in the disability pensions. Manley said that they assume that all of those on disability are taking their full pension. Dennis Lilly also spoke. He said he's beyond the retirement age and has seven children he's supporting. Milam asked if there's anything with the disabilities act that if we are treating people differently post retirement. Carter said that most plans you convert to a regular pension at normal retirement age. Lewsader said that she's not aware of anything, but she would be happy to do further research. She also clarified that if this change would not change the accrued liability of the Plan then the statute that she mentioned before is not triggered. Cantrell reiterated that most of those on disability are no longer able to do the jobs that they had on the side because of the income restriction and hope that their spouses have a good enough job with insurance.

#### 12. Fiduciary Insurance – David Endacott, Nixon & Lindstrom

Endacott said that he has looked at our policy and the claim that hasn't had any activity on it. Since he's not the agent on the account, Chubb will not talk to him. He does have a copy of the policy and there are a few recommended changes that he would make. Chubb will appoint a new agency with proper documentation mid-term. At that time Endacott would then be able to look into this further. He would definitely advocate for local representation. Manley said that a new broker would not receive any monetary compensation for the current policy. They would require an agent of record letter and then Endacott could negotiate on behalf of the Board.

Krafve made a motion to draft a letter stating that David Endacott of Nixon & Lindstrom is the new agent of record for the Board's fiduciary insurance for the current term; 2<sup>nd</sup> by Carroll. Discussion: Manley said that she checked whether the Board has to do an RFP and it does not. Milam questioned whether the Board should consider other companies before making a decision. Concern over delaying this any further was expressed. Endacott reiterated that he would not be getting paid for his work under the current term. Vote all: Yes.

Fraley left the meeting at 9:55 a.m.

#### 13. Actuarial Valuation as of June 30, 2016

Mike Zweiner of Milliman presented the actuarial valuation report. The good news is that the unfunded accrued liability decreased. The bad news is that investment returns have lagged our assumption. He added that the other funds are experiencing the same thing. It's not that the investment consultant is doing a poor job. Manley asked if the Board should consider lowering the investment return assumption. He said that the models show that 7% is an optimistic expectation. He said it may be something that the Board would want to look at again. It will affect the funded ratio if it is lowered again. That's why it is a significant topic. With this fund being closed it makes it more important. It was lowered from 7.5% to 7.0% two years ago. Manley said that that SRC is presenting an asset allocation study at next month's meeting. Welsh asked what a 1.5% decrease in the investment assumption would do. Zwiener said that if you decrease by .5% it would roughly increase the accrued liability by 6-7% so around \$35 million dollars. So if you did that three times it would be very significant. Zwiener said that he would have to look at any changes that are adopted with the asset allocation study and then make a recommendation on the investment returns.

The gain on the year was \$13 million. If we didn't have the sales tax coming in we would have had a \$20 million actuarial loss. All of the good news we have is due to the sales tax revenue coming in. Initially we had projected that if all assumptions are met, the sales tax was not going to pay off the unfunded within five years. So we went back to the voters to renew the sales tax with the expectation that it would be paid off in years seven or eight. With the subpar investment returns the last two years, it will probably be fortunate to get there by year 10. The AFC is now tracked separately between the police and fire. The smoothed actuarial value of assets is \$367,311,417 making the funded ratio 76.5%. If the market value of assets was used the Plan would be 71.5% funded. The unrecognized losses will have to be recognized in the next few years. The net rate of return was 1% for the year.

Manley asked Zwiener to comment on what impact it may or may not have on the fund if the income restrictions were lifted for those on disability pensions. Zwiener said there are two things. One is the actual dollars that are paid and the other is the actuarial model for our funding. If the offset is eliminated then what is the cost to the Plan? The cost to the Plan in real dollars would be zero if nobody has any offsets. If the proposal is accepted and there's a member that would have exceeded the limit then there is a cost because there would have been an offset. Manley said the offsets have totaled about \$.5 million total over the past six years. Zwiener said it sounds like it is a small number, but it would be difficult to say that there is no cost. To the extent that someone is getting a higher benefit than they would have otherwise got, there is a cost. Milliman assumes the rates of disability and they assume that any disability that happens is a duty disability. They don't assume that anyone will come back and they don't assume any offsets. He would describe that as conservative. Offsets are currently picked up as a small actuarial gain. If this proposal were to be adopted, it would not have any impact on our funding cost. We are already assuming there are no offsets or anything of that nature. Milam said that doesn't mean that we aren't dealing with real dollars. Zwiener said that's correct. Milam said that the Board has discussed in the past overpaying members because of clerical errors and it being our fiduciary responsibility to recollect those amounts which were around \$3,000 and now we are talking about \$80,000 per year that we would have otherwise received. We need to take that into account in any decision we make. It doesn't mean it's not the right decision or that we shouldn't pursue it. Zwiener said that you can't say the benefit is free because we are dealing with actual dollars.

Carroll made a motion to approve the actuarial valuation as of June 30, 2016 as presented by Milliman; 2<sup>nd</sup> by Carter. Vote all: Yes.

#### 14. Adjournment

Carroll made a motion to adjourn the meeting; 2<sup>nd</sup> by Carter. Vote all: Yes. The meeting adjourned at 10:50 a.m. on October 13, 2016.